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Message Text

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ACTION AID-31

INFO OCT-01 NEA-10 ISO-00 XMB-02 EB-07 IGA-02 OPIC-03
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FM AMEMBASSY TEL AVIV
TO SECSTATE WASHDC 6849

C O N F I D E N T I A L TEL AVIV 4556

AID FOR GOVERNOR GILLIGAN

E.O. 11652: GDS
TAGS: EFIN, IS
SUBJECT: AID ADMINISTRATOR'S VISIT - PROPOSAL FOR NEW FOREIGN LENDING FACILITY

1. DURING LUNCH WITH GOVERNOR GILLIGAN ON JUNE 21, BANK OF ISRAEL GOVERNOR ARNON GAFNI ADVANCED THE IDEA OF A NEW WORLD BANK LENDING FACILITY IN WHICH MAJOR COMMERCIAL BANKS WOULD PARTICIPATE IN LENDING TO THE HIGHER- INCOME DEVELOPING COUNTRIES. GAFNI NOTED THAT THESE COUNTRIES, E.G., ISRAEL, SPAIN, GREECE, IRELAND, ETC., WERE NO LONGER ELIGIBLE FOR LOANS FROM THE WORLD BANK BECAUSE OF THE CRITERIA ON PER CAPITA GNP. AT THE SAME TIME, COMMERCIAL BANKS WERE INCREASINGLY RELUCTANT TO EXPAND THEIR INTERNATIONAL LENDING. IN HIS VIEW IT SHOULD BE POSSIBLE FOR A NEW FACILITY TO BE ESTABLISHED WHEREBY THE WORLD BANK WOULD PUT UP, FOR EXAMPLE, TEN PER CENT OF THE FUNDS (OR PROVIDE GUARANTEES) AND PARTICIPATING U.S. AND WESTERN EUROPEAN BANKS WOULD PUT UP THE REMAINING 90 PER CENT. THE USUAL WORLD BANK LENDING PRECEDURES COULD BE FOLLOWED; TERMS OF THE LOANS COULD OF COURSE BE HARDER THAN THOSE OFFERED TO THE POORER COUNTRIES.

2. GAFNI THOUGHT THAT THE WORLD BANK WOLD BE INTERESTED
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SINCE THE NEW FACILITY WOULD NOT PROVIDE MUCH ADDITIONAL DRAIN ON ITS RESOURCES AND IT WOULD BE RELIEVED OF THE CURRENT PRESSURE BEING APPLIED BY THE COUNTRIES CONCERNED. THE COMMERCIAL BANKS, FOR THEIR PART, SHOULD BE ATTRACTED BY THE DISCIPLINE IMPOSED BY WORLD BANK LENDING PROCEDURES. MOREOVER, A SCHEME SUCH AS THIS WOULD REPRESENT A MAJOR STEP TOWARD PROVIDING ORDER IN

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THE PRESENTLY CONFUSED INTERNATIONAL LENDING PICTURE.
GOVERNOR GILLIGAN SAID THAT THE IDEA APPEALED TO HIM
AND CERTAINLY WARRANTED FURTHER EXAMINATION.

3. SUBSEQUENT TO THE GOVERNOR'S VISIT, GAFNI INFORMED
US THAT HE HAS INSTRUCTED HIS SUBORDINATES TO UNDERTAKE
A STUDY TO DEVELOP THE PROPOSAL FURTHER. HE HOPED TO
BE ABLE TO PASS A PAPER TO US WITHIN TWO OR THREE
WEEKS. HE SAID THAT HE WOULD LIKE VERY MUCH TO HAVE
WASHINGTON'S REACTION, ADDIDING THAT IN ANY EVENT IT
MIGHT BE PREFERABLE FOR THE SCHEME NOT TO BE INTRO-
DUCED AS "AN ISRAELI PLAN". HE SAID THAT MCNAMARA
IS EXPECTED TO VISIT ISRAEL IN LATE SUMMER AND HE PLANS TO
DISCUSS THIS SUBJECT WITH HIM. HE WOULD LIKE TO HAVE U.S. VIEWS
BEFOREHAND.
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